

CITY OF HUNTINGTON BEACH
INVESTMENT ADVISORY BOARD (IAB)
ANNUAL REPORT TO THE CITY COUNCIL
FOR THE PERIOD OCTOBER 1, 2004 TO SEPTEMBER 30, 2005

October 1, 2005

Establishment of Board

The IAB was created to act in an advisory capacity to the City Council and City Treasurer in matters pertaining to all of the City's investments by the City Council in May 1995 by Resolution #3284. The seven Board members are appointed by a member of the City Council and are as follows:

<u>Name</u>	<u>Council Member</u>
Ed Bush	Cathy Green
Joe Foye	Debbie Cook
Bob Glass	Don Hansen
Monica Hamilton	Dave Sullivan
Brian Olson	Keith Bohr
Diann Shelton	Gil Coerper
James Steinkirchner (Chair)	Jill Hardy

Board Activities

The meetings of the Board for the fiscal year ended September 30, 2005 were open to the public as required by Government Code 54950 and held on the following dates in City Hall:

October 27, 2004
December 20, 2004
January 26, 2005
April 27, 2005
July 20, 2005

In addition, a joint study session with the City Council is scheduled to be held on November 7, 2005.

The two major activities of the Board consisted of reviewing each monthly investment report and reviewing the City of Huntington Beach Investment Policy annually, prior to their presentation at a City Council meeting. In addition, the City Administrator and Finance Officer participated in one of the IAB meetings and provided budgetary and cash flow information.

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As required under HB Municipal Code 2.110.040(b), the Board has reviewed matters pertaining to the City's investments in the following areas:

- Reviewed the annual Investment Policy
- Discussed the Management Letter from the City's independent financial auditor in conjunction with the annual financial audit and was advised that there were no comments relating to investments for the IAB to review
- Discussed Cash Management and ensured that there was sufficient liquidity to meet the next six month's estimated expenditures for all funds including the General Fund.
- Reviewed Risk-Return Analysis as it relates to Safety, Liquidity, and Yield
- Reviewed Long Term Investments and how cash flow forecasting enables the City to match investments to budgeted expenditures
- Reviewed New Investment Sources, as appropriate
- Reviewed Proposed State Legislation impacting the City's Investments
- Reviewed any Anticipated Exposure to Loss by looking at liquidity, credit & market value of investments
- Reviewed Quarterly and Monthly Reports prior to them being presented to the City Council
- Reviewed Quarterly Compliance with Investment Policy and no exceptions were identified

Based on the information reviewed by the Board for the period October 1, 2004 to September 30, 2005 it appears that the City Treasurer has maintained compliance with all requirements in the City's Investment Policy.

Respectfully submitted,

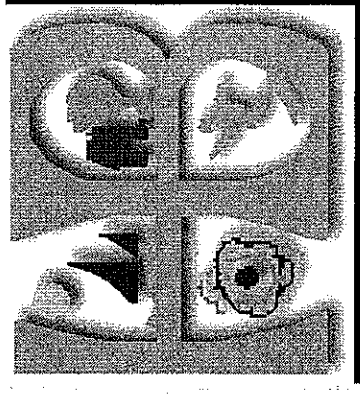


James Steinkirchner
Chair – Investment Advisory Board

c: Shari L. Freidenrich, City Treasurer

Joint Study Session

IAB/City Council



Investment Advisory Board Members:

James Steinkirchner, Chair;

Ed Bush, Joe Foye, Bob Glass,

Monica Hamilton, Brian Olson, Diann Shelton

November 7, 2005

Study Session Topics

- Overview of year - IAB report
- Investment opportunities in a rising interest rate environment

Overview of IAB Annual Report

- Investment policy compliance
- Broker/dealer review
- Legislation impacting investments
- Cash management
- Monthly/quarterly investment report

Investment Outlook in a Rising Interest Rate Environment

- Market Overview/Economic Forecast
 - Interest Rate Yield Curve
- Investment Strategies for the City

Market Overview and Economic Forecast

- Fed has raised Fed Funds (FF) rate from 1% in June 04 to 4% now
- We expect FF rate of 4.5% in first half 2006, then lower by end of year
- We expect slightly higher long-term rates of 4.5%-5%, then 4%-4.25% by end of year
- Flat then possibly inverted yield curve before it eventually resteepestens

Economy

- Rise in Energy Prices and housing fueling inflation concern
- Katrina recovery means grab for resources
- Rising home prices sustaining consumer via equity extraction and wealth effect
- Higher rates not yet slowing economy
- Labor markets remain good
- Foreign and pension demand for bonds continues

Where does the market think rates are headed?

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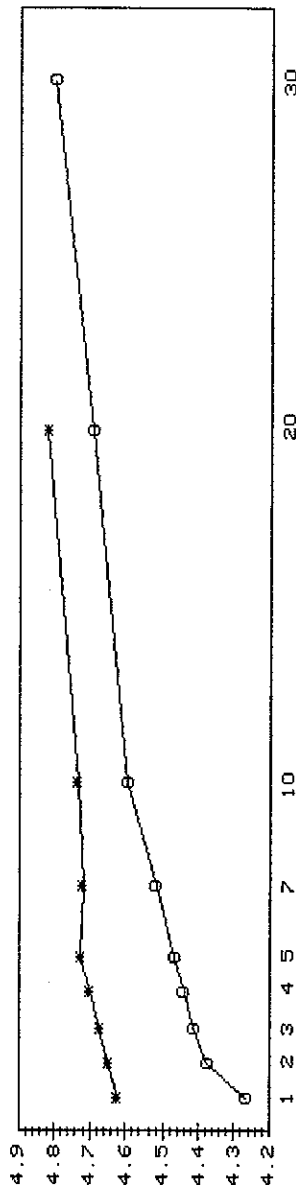
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U A 1	4.48	4.48	4.49	4.51	4.53	4.58	4.64	4.73	
R 2	4.48	4.50	4.52	4.55	4.57	4.62	4.66	4.75	
Y 3	4.51	4.54	4.57	4.59	4.62	4.67	4.69	4.77	
R S 5	4.62	4.65	4.67	4.70	4.73	4.72	4.74	4.82	
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*- 5 YRS FWD

IYC CURVE # 25



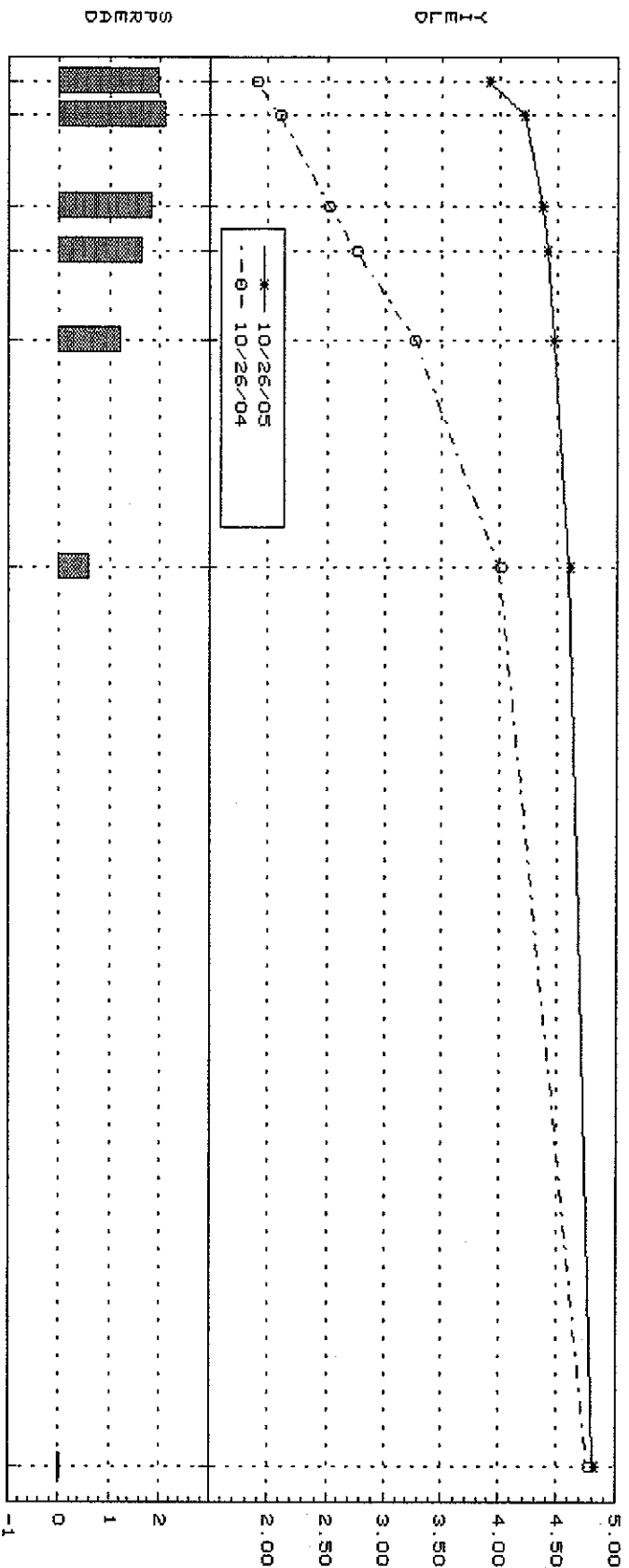
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Treasury Yield Curve now and 1 year ago

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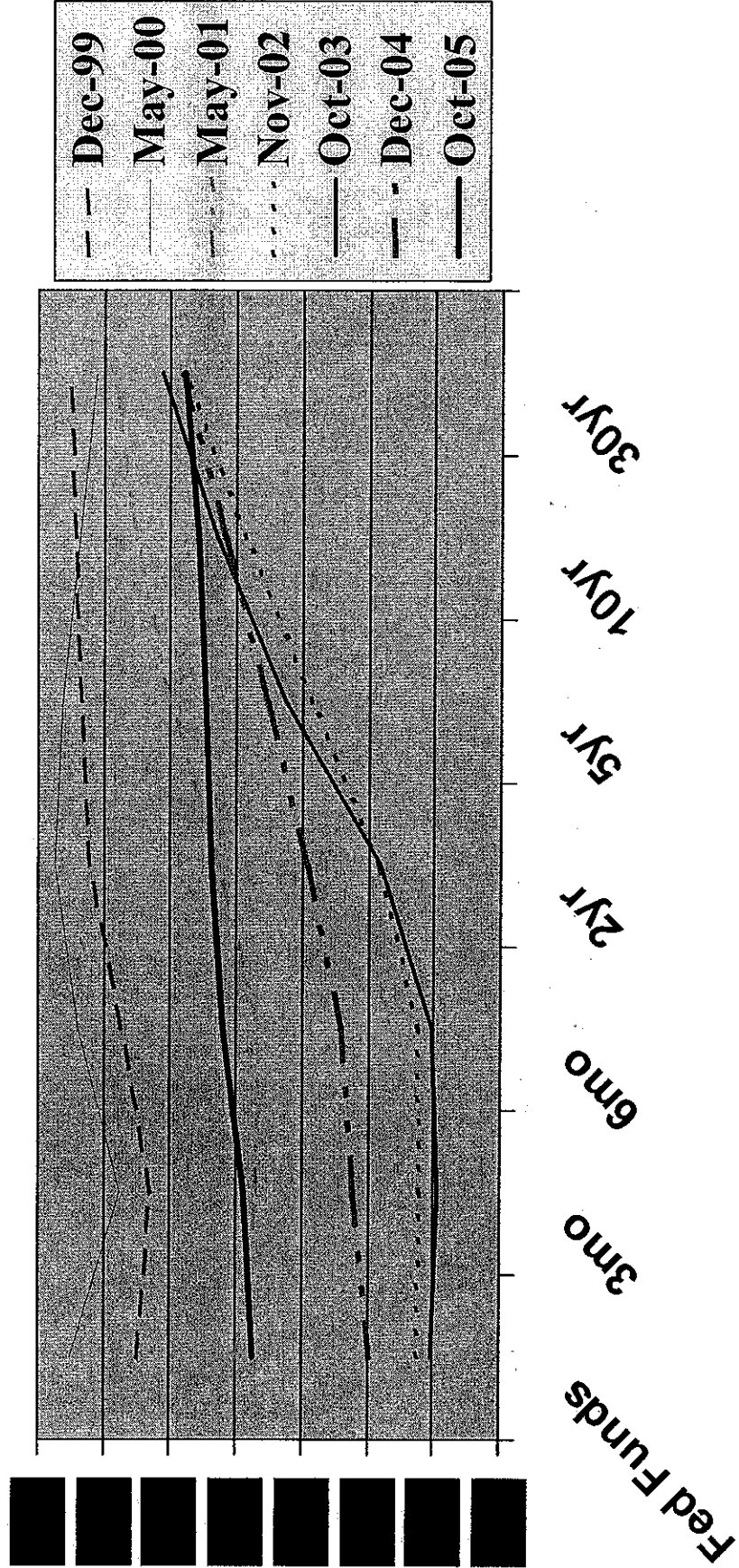
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HISTORICAL YIELD CURVE DATE RANGE 10/26/04 10/26/05 MTY RANGE 3M 30Y PAGE 1 OF 2



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Interest Rate Yield Curve



Investment Strategies for the City

- Determine Liquidity Needs!
- Consider extending maturities over the next year to lock up higher long-term yields
 - Invest in callables with 1 time calls and plenty of call protection
 - Invest in agency bullets and US Treasuries with 3-5 year maturities to protect against the eventual decline in rates

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Conclusion

- Overview of year - IAB report
- Investment opportunities in a rising interest rate environment